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California air regulators approve carbon-trading plan

The cap-and-trade system will limit emissions from 600 major industrial plants in the state, starting in 2012. Firms could buy pollution offsets from timber companies that preserve carbon in forests.

By Margot Roosevelt
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California regulators Thursday voted to cap the greenhouse gas emissions of the state's major industries and establish the nation's first broad-based carbon trading program.

The move marks another bellwether moment for a state that has led in environmental policy, coming as national climate legislation to regulate greenhouse gases and curb climate change has stalled in Congress.

"This is an historic venture," said Mary Nichols, chairwoman of the California Air Resources Board, as the panel voted 9 to 1 to approve some 3,000 pages of regulations and supporting documents, crafted over three years of intense negotiations with businesses and public interest groups.

Given the state's fragile economy, Nichols said, "Most political people said we should do as little as possible as slowly as possible." Instead, she said, "we are being cautious and careful, but in the context of a very bold effort."

Gov. Arnold Schwarzenegger, a champion of a market-based approach to climate regulation, showed up partway through a 10-hour public hearing at the board's headquarters to applaud the agency's effort to develop trading rules for carbon emissions. "We have led the nation in developing green policies," Schwarzenegger said. "And we have seen our green economy grow as a result."

California's 2006 Global Warming Solutions Act requires the state to slash greenhouse gas emissions to 1990 levels by 2020 — amounting to a 15% cut below today's levels.

The complex cap-and-trade system is a centerpiece of the state's plan. Already approved are rules to hike the fuel efficiency of automobiles, cut the energy intensity of gasoline and source a third of the state's electricity from renewable sources.

More than 180 industry executives, environmentalists and concerned citizens testified on the trading regulations, which will limit emissions from 600 major industrial plants in the state. Representatives of the cement, electrical and agribusiness sectors picked apart aspects of the rules, as did forest conservationists, health advocates and anti-poverty lawyers.

In the day's most contentious debate, more than a score of environmentalists and residents of Sierra Nevada communities showed up to protest provisions that would allow industrial plants to reduce their obligation to curb pollution at their own facilities by allowing them to purchase offsets from timber companies that pledge to tailor their practices to preserve more carbon in forests.

Several board members sought to exclude a part of the regulation that allows parcels to be clear-cut and replanted. They were voted down, 7 to 3.

The forest rules divided the environmental community, with such groups as the Nature Conservancy and the Environmental Defense Fund — both strong backers of carbon trading — siding with Sierra Pacific, the state's largest timber company, in support of the rule as written. Local activists from Sierra Nevada communities, backed by the Sierra Club, pleaded with the board to exclude any trading that could encourage clear-cutting and the replacement of natural forests with single-species plantations.

"We want California to be the leader on climate, not a laughingstock," said Addie Jacobson, a board member of the Sierra Nevada Alliance who said she spoke for 85 organizations.

Only one board member voted against the overall cap and trade program: John Telles, a physician who represents the San Joaquin Valley Air Pollution Control District. Telles said the measure would not protect low-income residents from energy price hikes. He also suggested that a carbon trading market would be open to "manipulation," as was the case with California's disastrous deregulation of electricity markets in the 1990s.

Under the program, the state would cap each industrial plant's emissions in 2012, gradually lowering the cap over the following eight years. Companies would be granted allowances for each ton of carbon dioxide they could emit.

Many speakers at the public hearing criticized the board's decision to ignore its own economic advisory committee's recommendation to auction those allowances, rather than give them to industry.

"Auctioning provides a sharper price signal," said UC Berkeley economist Michael Hanneman, adding that giving away allowances for free "risks granting windfall profits" to industry.